Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington D.C. 20554

In the Matter of	)	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers	)	CC Docket No. 00-256
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)	CC Docket No. 98-77
Prescribing the Authorized Rate of Return For Interstate Services of Local Exchange Carriers	)	CC Docket No. 98-166

COMMENTS OF THE RONAN TELEPHONE COMPANY
AND HOT SPRINGS TELEPHONE COMPANY

The Ronan Telephone Company (RTC) is a small rural local exchange company serving approximately 4000 access lines on the Flathead Indian Reservation of western Montana, the home of the Confederated Salish and Kootenai Tribe. RTC is a small private incumbent LEC serving an economically depressed agricultural tribal community, and facing serious competitive pressures from its neighboring LECs. Hot Springs Telephone Company (HSTC) is an even smaller LEC, with approximately 700 access lines on the Flathead Indian Reservation.

The Federal Communications Commission issued its "MAG Order" on November 8, 2001, and included a "Further Notice of Proposed Rulemaking" on certain issues, including the "incentive regulation plan" and "X-factor" productivity offset proposals for rural companies.[1] RTC and HSTC oppose these proposals, to the extent that any incentive regulation plan includes an "X-factor" or productivity offset, for the following reasons:

The "X-factor" and other "productivity" factors which are based on the incentive regulation plan currently applied to large price cap companies are inapplicable and inappropriate for small companies. The main reason for this is that small companies do not have the enormous size and huge potential economies of scale that the large companies possess. Ronan Telephone Company has 4000 access lines in a small rural area, including one central office host switch, six remote switching sites, two exchanges, 35 employees, and a total annual budget of approximately $ 4,800,000. Hot Springs Telephone Company has one exchange, only nine employees and a total annual budget of $1,000,000. A large LEC with even 4,000,000 access lines is *1000 times larger* than Ronan Telephone Company and over *5700 times larger* than HSTC! These incredible size discrepancies make the potential productivity gains available to small companies minuscule compared to large companies. Qwest, which is now the smallest of the remaining RBOCs, has 30,000,000 customers, and is therefore 7,500 times larger than RTC; and has approximately 67,000 employees and multiple thousands duplicating the essential skills of the industry. A firm such as Qwest can improve its productivity through attrition, retirements, and wise hiring practices alone. RTC and HSTC's employees, for example, perform the same wide variety of highly specialized tasks as Qwest's huge workforce, but RTC and HSTC do not have the luxury of being able to reduce their workforce by 2% or 5% to achieve "efficiency gains" since it obviously does not have any

[1] In DA-01-2916, the FCC extended the comment deadlines in this matter until February 14 and March 18, 2002.

duplication in each specialized area. For example, small central office switch networks are inherently less efficient and more costly than the massive urban-scaled switch networks utilized by Qwest. In addition, RTC and HSTC each need at least two switch technicians on their payroll to provide 24 hour-a-day, 365 day per year, maintenance coverage. In simple terms, a small company cannot reduce its small specialized employee workforce, since the minimum number of required workers is already in place (e.g. eliminating one of two switch technicians would be a 50% reduction and would leave the company without the necessary expertise half of the time, an obviously unsatisfactory situation; and a "2-5% reduction" with only two employees is simply not possible). Whereas a large company, such as Qwest, can reduce the number to switch engineers by a small percentage, since it has hundreds of those specialized employees on the payroll. Small companies also do not have the system-wide growth factors that allow the realization of scale economies. Most rural areas have had low-growth or stagnant economies in recent years. The "historic productivity gains in the industry" which the FCC refers to, are based upon the economies of scale available to the large companies serving primarily high-growth urban markets. The FCC focuses upon those markets, but urban economic theories do not apply to rural areas or to the small telephone companies that provide rural service.

The FCC should not adopt a productivity factor for small companies because to do so would discourage investment in telecommunications infrastructure in rural areas and the maintenance and improvement of services that are so vital to the rural economy.[2] It would also threaten the

[2] See FCC 01-304 (hereinafter "MAG Order"), ¶212 and 223

continued provision of high quality universal telecommunications service in rural America,[3] and, it would discourage the deployment of advanced services.

The rate structure already adopted in the MAG order is far below rural costs. For example, the average rural LEC's costs in Montana are approximately eight cents per minute, according to the FCC's own proxy cost model; while the MAG plan lowers access rates to a aggregate average of 2.2 cents. Thus, even without any productivity offset, rural companies will be recovering far less than their actual costs of service from carrier access charges.

RTC is also unclear as to how a productivity factor would be applied to it as a small company that participates partially in the NECA pool and is an average schedule company. It is all but certain that the administrative burdens and costs on small companies like RTC and HSTC would be far greater than any benefit perceived by the FCC; and indeed, the effect of a productivity factor would be harmful to small telephone companies and the rural communities they serve. RTC and HSTC urge the FCC to give serious consideration to the administrative costs on small companies, of any plan it might adopt.

[3] The FCC echoes this concern in its MAG Order, 01-304, ¶220, 224.

RTC maintains that in the event any type of productivity factor is adopted, it should be entirely optional for small rural telephone companies and not “one-way” (ie. a carrier could opt-in and opt-out freely at a later date). This is appropriate because of the diversity of the costs and structures of small companies throughout the country, and because no type of productivity factor has ever been applied to small companies.[4] Further, if any plan is adopted, it should certainly include some type of “low end adjustment” designed to protect the small companies from unjust results and rates which fail to compensate for their costs of service.[5]

In summary, Ronan Telephone and Hot Springs Telephone strongly oppose the adoption of any “productivity/X-factor” as part of an incentive regulation plan for rural/rate-of-return carriers.

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Respectfully Submitted,

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[4] See MAG Order, ¶219.

[5] MAG Order, ¶238.